

FRA. A trader may respond to a price inquiry by selecting the entry in the bulletin board.

5 The credit facility uses pre-screened prices. Trading Floor Administrators (TFAs) at the trading floors enter credit limits for each counterparty group of trading floors. Dealable prices are distributed to those floors that have credit with the price maker.

10 The trading screen shown in Figure 1 provides traders with the facility to enter bids, offers, buy or sell orders by selecting buttons on a toolbar at the top of the screen. The best bid/offer prices are displayed for tenors of various lines in one window and deals done by the trader and on the system as a whole are displayed in other windows. The display is better understood with reference to an example of a FRA deal.

15 As explained, a Forward Rate Agreement (FRA) is a contract between two parties to lock in a forward interest rate, for a period, starting at a specific date in the future.

20 For example, a 6x9 FRA is a contract covering a period that begins 6 months from now and ends 9 months from now. The *term* or *gap* of such a contract is 3 months. The two counterparties, one buyer and one seller, settle by cash payment at the start of the contract period (in this case 6 months from now).

25 The buyer of a FRA will be compensated if future interest rates rise. The seller of an FRA will be compensated if future interest rates fall.

Settlement is based on the difference between the actual interest rate prevailing on the fixing date and the rate specified in the contract, for a specific notional amount stated in the contract. Settlement takes place at the beginning of the term.

30 As an example, consider a USD 6x9 FRA trade for \$100 million (US) at an agreed upon rate of 5.5675 executed on September 9th, 1997. The deal has the following characteristics:

5 Trade Date: September 9th, 1997
 Spot Date: September 11th, 1997
 Fixing Date: March 9th, 1998
 Settlement Date: March 11th, 1998
 Maturity Date: June 11th, 1998
 Contract Rate: 5.5675
 Notional Amount: 100 million (US\$)
 Reference Rate: LIBOR

10 The period of this deal begins on March 11th, 1998 (the
 settlement date) and ends on June 11th, 1998 (maturity date). On
 March 9th, sometime after 11:30 AM London time, the back office
 personnel at each bank will look on the appropriate Reuters page to
15 read the 3-month LIBOR rate posted for March 9th. If, for example, this
 rate is 5.5800, then between the trade date and the fixing date, the
 interest rate has risen 0.0125 percent of 1¼ basis points. Therefore, a
 settlement amount must be calculated based on this reference rate of
 5.58%. The settlement amount is the amount on the check paid by the
 seller to the buyer. The settlement amount is calculated using the
20 following formula:

Settlement Amount Calculation Example

$$\frac{\text{Fixing Rate} - \text{Contract Rate}) \times (\text{Days in Period}) \times (\text{Notional Amount})}{(360 \times 100) \div (\text{Fixing Rate} \times (\text{Days in Period}))}$$

$$\frac{(5.58 - 5.5675) \times (92) \times (100,000,000)}{(360 \times 100) \div (5.58 \times 92))}$$

$$\frac{115,000,000}{36,513}$$

\$3,149.53

will match either FRABBA or ISDA), and "none" (which results in an automatic mis-match).

5 As a trading floor parameter, each trading floor must be able to maintain a list of counterparties that have ISDA agreements with that trading floor. Deals between floors which have mutually designated each other as having ISDA (or both ISDA and FRABBA) agreements will have the text "ISDA" printed on the two deal tickets in the "Settlement Terms" field. Deals between floors whose FRABBA/ISDA
10 designations do not match will have the next "mismatch" printed on the deal tickets in this field. All other deals will result in deal tickets with the text "FRABBA" printed in the "Settlement Terms" field.

15 In the event of a mis-match between the floors, the deal on which the mis-match occurs is completed, but each trading floor disallowed from further trading with the other until the mis-match is resolved.

Other Price Screening

20 We have appreciated that prices could be screened using the Pre-Authorisation Matrix shown in Fig 6 for other criteria. In particular the Pre-Authorisation Matrix could be used to designate whether the settlement terms of two parties match. Thus, by using the Pre-Authorisation Matrix in the manner described, prices would only be shown if there is an agreement of settlement terms between the two parties. Other Pre-Authorisation Matrices are also possible, and may be used in conjunction with the embodiment of the invention described.

25 Credit Maintenance

The Credit Group Maintenance screen CGM shown in Fig 9 includes Existing Credit Groups EGC showing the credit groups already created and has pushbuttons PB to create, delete or modify the groups. When an Existing Credit Group is highlighted (or a new Credit Group is
30 being created), the Credit Group Profile GCP shows the Credit Threshold CT